

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

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COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 AGR-05 L-03 H-02 DODE-00 PA-01 PRS-01 /090 W

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R 031040Z MAR 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 627

INFO AMEMBASSY ABU DHABI

AMEMBASSY DAMASCUS

C O N F I D E N T I A L CAIRO 2831

DEPT PASS AID AND TREASURY

ABU DHABI AND DAMASCUS FOR SECRETARY SIMON

EO 11652: GDS

TAGS: EGEN EFIN

SUBJECT: EGYPTIAN MINFINANCE INTEREST IN OBTAINING
THROUGH AID MORE CONSUMABLES

1. DURING UNDER SECRETARY ROBINSON'S RECENT VISIT, MINFINANCE ABU ISMAIL MENTIONED AT ONE POINT HIS HOPE THAT AID FUNDS MIGHT BE USED FOR MORE CONSUMER GOODS. WHILE HE DID NOT SPELL OUT AMOUNTS HE HAS IN MIND, WE MUST RECKON WITH EGYPTIANS RAISING THIS MATTER AGAIN, INCLUDING PERHAPS TO SECRETARY SIMON WHEN HE VISITS EGYPT. FOLLOWING IS PRESENTED TO SET FORTH OUR VIEWS ON SITUATION.

2. AS DEPT AWARE, ALL CONSUMABLES IMPORTED UNDER PROGRAM ARE HANDLED THROUGH CIP. FY 76 CIP AMOUNTED TO \$150 MILLION, OF WHICH APPROX \$72 MILLION WAS ALLOTTED TO CAPITAL GOODS AND APPROX \$78 MILLION TO
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RAW MATERIALS. WE SOUGHT AT THE TIME TO INCREASE THE CAPITAL GOODS COMPONENT, BUT BECAUSE OF URGENT

EGYPTIAN NEED, ULTIMATELY AGREED TO A GREATER CONSUMABLES COMPONENT ON CLEAR UNDERSTANDING THAT IN FY 76 CIP WE WOULD WANT MORE CAPITAL GOODS. ASSUMING CONGRESS APPROVES, CIP INCREMENT FOR FY 76 WOULD BE AROUND \$250 MILLION. BREAKDOWN OF THIS AMOUNT BETWEEN CAPITAL AND CONSUMABLES IS YET TO BE NEGOTIATED. EGYPTIANS WILL WANT MAXIMIZE CONSUMABLES. IN FACT, WE HAVE UNCONFIRMED REPORT THAT PRIMIN ISSUED INSTRUCTIONS TO ALL GOE MINISTRIES TO TRY TO OBTAIN THEIR CONSUMABLES REQUIREMENT AS MUCH AS POSSIBLE THROUGH AID FUNDING. HE HAS NEVER ACKNOWLEDGED THIS TO US.

3. FROM ECONOMIC AND POLITICAL POINT OF VIEW, WE RETAIN SERIOUS DOUBTS RE WISDOM INCREASING CONSUMABLES COMPONENT AID PROGRAM FOR VARIOUS REASONS:

(A) IT MAKES NO LASTING POLITICAL IMPACT ON EGYPTIAN POPULACE AND, AS OUR PL 480 WHEAT SALES OF THE 60'S GRAPHICALLY DEMONSTRATED, IS FORGOTTEN AS SOON AS CONSUMABLES ARE USED UP.

(B) IT MAKES NO LASTING CONTRIBUTION TO EGYPT'S MEDIUM OR LONG-TERM DEVELOPMENT, WHICH OUGHT TO BE THE PRIMARY OBJECTIVE OF OUR AID PROGRAM.

(C) CONTINUED EXPENDITURES OF LARGE AMOUNTS ON CONSUMABLES WILL INEVITABLY SOONER OR LATER RAISE QUESTIONS IN CONGRESS AS TO THE PURPOSE OF OUR AID PROGRAM FOR EGYPT, WHICH WE HAVE SOUGHT TO PORTRAY-- RIGHTLY IN OUR JUDGMENT-- IS DIRECTED AT FACILITATING LONG NEGLECTED EGYPTIAN ECONOMIC DEVELOPMENT.

(D) IT STRENGTHENS EGYPTIAN PROCLIVITY TO TRY TO MAKE USG ITS ECONOMIC "CRUTCH".

(E) IT ENCOURAGES FURTHER UNCONTROLLED PROCUREMENT ON PART MINISTER OF SUPPLY AND OTHERS.

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4. WE RECOGNIZE, OF COURSE, THAT IMPORTATION OF ADEQUATE CONSUMABLES IS NECESSARY FOR SADAT REGIME'S SURVIVAL. FACT REMAINS, HOWEVER, THAT WE ARE ALREADY MAKING MAJOR CONSUMABLE CONTRIBUTION IN FORM OF ONE MILLION TONS OF WHEAT/WHEAT FLOUR IN FY 76. WE HAVE NO PROBLEM WITH LIMITED AMOUNTS OF RAW MATERIALS SUCH AS TALLOW, TINPLATE, AND PLASTICS FUNDED THROUGH CIP, BUT SUCH ITEMS MUST BE CAREFULLY CHOSEN.

5. IN CIRCUMSTANCES, WHILE WE SHOULD MAINTAIN
REASONABLE FLEXIBILITY ON COMPOSITION OF CIP, WE
PURPOSE TO CONTINUE TO PRESS GOE THAT THE GREATER
PART OF CIP-- AND CERTAINLY NOT LESS THAN 50 PERCENT--
BE ALLOTTED TO CAPITAL GOODS, SUCH AS BUSES, TRUCKS
OR MACHINE TOOLS. SUCH THINGS WE CAN POINT TO
AS LONGER TERM BENEFITS ACCRUING TO EGYPT
FROM AID PROGRAM.
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